

Message Text

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ACTION EUR-12

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O R 091820Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 8391
INFO ALL OECD CAPITALS
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E.O. 11652: N/A

TAGS: EEWT, ETRD, MTN, OECD, EC

SUBJECT: EASTERN EUROPEAN RECIPROCITY IN THE MTN:

MEETING OF OECD TRADE COMMITTEE WORKING PARTY MARCH 7-8

1. SUMMARY. TCWP HAD LIVELY DISCUSSION OF EASTERN
RECIPROCITY ISSUE WHICH CENTERED ON DEBATE BETWEEN
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EC COMMISSION AND U.S. DEL ON THE MERITS OF EC'S
PLANS TO SEEK SECTORAL IMPORT COMMITMENTS (SIC'S)
FROM EASTERN EUROPEAN PARTICIPANTS IN THE MTN.
RESULT WAS LARGELY A STANDOFF, WITH EC INSISTING
THAT U.S. AND OTHER OECD MEMBERS JOIN EC EFFORT
OR RISK LOSING OUT IN EC BILATERAL NEGOTIATIONS.
OTHER DELEGATIONS SHOWED KEEN INTEREST IN DEBATE AND

CONSIDERABLE SKEPTICISM AT SIC APPROACH, BUT DID NOT TAKE FIRM POSITIONS. GROUP AGREED WORKING PARTY COULD TAKE UP SUBJECT AGAIN IF NUMBER OF DELS FELT THIS DESIRABLE. END SUMMARY.

2. EC COMMISSION DEL (KAWAN) LAUNCHED DEBATE OF EASTERN EUROPEAN (EE) RECIPROCITY IN THE MTN WITH A SPIRITED DEFENSE OF THE EC'S SECTORAL IMPORT COMMITMENT APPROACH, GENEROUSLY OFFERING OTHER OECD COUNTRIES THE OPPORTUNITY TO JOIN THE EC IN A JOINT EFFORT AND OFFERING EC SUPPORT FOR THEIR BUSINESS FACILITATION AND INFORMATION REQUESTS. KAWAN EMPHASIZED THE "CREATIVE POSSIBILITIES" OF THE FIRST FULL EE PARTICIPATION IN MTN AS GATT MEMBERS AND ARGUED THAT IF THE WEST DID NOT ATTEMPT TO OBTAIN IMPORT COMMITMENTS FROM EE'S IN TOKYO ROUND, CHANCE WOULD BE LOST FOREVER. EC PLANS WERE NOT FIRM, BUT KAWAN EXPECTED EC TO ASK EASTERN MTN PARTICIPANTS WHAT COMMITMENTS THEY WOULD BE WILLING TO MAKE TO INCREASE IMPORTS OF 5 OR 6 BROAD CATEGORIES OF CONSUMER GOODS, SUCH AS TEXTILES, FOOTWEAR, FURNITURE, HANDLOOMS (AND OTHER PRODUCTS OF INTEREST TO LDC'S), AND AUTOMOBILES, FROM GATT MEMBERS AS A GROUP. HE TRIED TO ANSWER ANTICIPATED CRITICISM BY EXPRESSING DOUBT THAT EE'S NOW PURCHASED AS MUCH AS THEY COULD IN THE WEST, AND SUGGESTING SIC'S LIMITED OFFICIAL USE

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WOULD DIVERT EE'S FROM INCREASING THE CEMA SHARE OF THEIR TRADE. COMMISSION REP DISMISSED THE ARGUMENT THAT SIC'S WOULD STRENGTHEN EE'S STATE MONOPOLY SYSTEM, OR THAT OTHER KINDS OF REQUESTS WOULD WEAKEN IT. HE SAID THAT IF THERE IS SUFFICIENT POLITICAL WILL IN EE (AND BY IMPLICATION, IN THE WEST), THE WEST CAN GET EFFECTIVE CONCESSIONS THROUGH SIC'S. IF EE'S REFUSE, THAT IS THEIR PROBLEM, AND SHOULD NOT DETER WEST FROM MAKING REQUESTS.

3. U.S. DEL REPLIED THAT THE MORE THE USG STUDIED EE RECIPROCITY QUESTION, THE MORE IT SAW PITFALLS INSTEAD OF CREATIVE POSSIBILITIES. BEFORE TAKING A FIRM POSITION ON EE RECIPROCITY, U.S. HAD EXPRESSED CONCERNS AT OECD TCWP IN SEPTEMBER THAT THIS ASPECT OF MTN NOT DEGENERATE INTO WESTERN RIVALRY OVER LIMITED EASTERN MARKETS, AND THAT EE PARTICIPATION IN THE WESTERN TRADING SYSTEM BE CONTINUED ON A MULTILATERAL BASIS. SINCE THEN, U.S. FEARS HAD BEEN REALIZED: WE WERE PARTICULARLY CONCERNED ABOUT DISCRIMINATORY AGRICULTURAL SIC

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REQUESTS, BUT SAW MANY OF THE SAME DIFFICULTIES
WITH SIC'S ON A NOMINAL MFN BASIS. U.S. FEARED
THAT THE BROAD PRODUCT CATEGORIES SUGGESTED BY
EC WOULD BE REDUCED DURING BILATERAL NEGOTIATIONS
TO PRODUCTS OF INTEREST ONLY TO THE NEGOTIATORS,
RESULTING IN OFFICIALLY-SANCTIONED BILATERAL
COUNTERTRADE.

4. U.S. DEL NOTED THAT SIC REQUESTS ALREADY
TABLED CALLED FOR COMMITMENTS TO INCREASE IMPORTS
OF SPECIFIC PRODUCTS EACH YEAR AT RATES FASTER
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THAN MOST ESTIMATES OF THE RATE OF EE TOTAL IMPORT GROWTH FROM THE WEST. SINCE PROPOSED SIC'S WOULD LAST AT LEAST FIVE YEARS, WITH THE ASSUMPTION THAT THEY WOULD THEN BE MODIFIED AND RENEWED, LONG-TERM EFFECTS HAD TO BE CONSIDERED. OECD COUNTRIES' PROSPERITY REFLECTED AN EFFICIENT MULTILATERAL TRADING SYSTEM BASED ON THE GATT, WITH INCREASES IN DOMESTIC ECONOMIC EFFICIENCY THROUGH INCREASED MARKET DISCIPLINE. TO THE EXTENT THAT SIC'S MIGHT HELP WEAKER INDUSTRIES, THEY MIGHT ATTRACT DOMESTIC POLITICAL SUPPORT, BUT A GUARANTEED MARKET FOR CERTAIN GOODS WOULD HURT OECD COUNTRIES' EFFICIENCY BY LIMITING OPPORTUNITIES FOR MORE COMPETITIVE INDUSTRIES. U.S. DEL POINTED OUT FURTHER PROBLEM THAT IF THE EC OBTAINED LUCRATIVE BILATERAL COMMITMENTS AND THE U.S. DID NOT, U.S. WOULD HAVE THE DOUBLE BURDEN OF EXPLAINING BOTH LIMITED EASTERN RECIPROCITY AND THE FAVORED POSITION OF A MAJOR TRADING PARTNER SUCH AS THE EC. U.S. DISAGREED WITH EC ARGUMENT THAT SIC HAD SAME EFFECT AS A TARIFF REDUCTION, IF BOTH WERE ON MFN BASIS, BY NOTING THAT IMPORTS FOLLOWING TARIFF REDUCTION COULD STILL BE BASED ON MARKET DECISIONS, WHILE IMPORTS UNDER SIC WOULD NOT. FINALLY, U.S. DEL QUESTIONED RELATIONSHIP OF INCREASED CONSUMER IMPORTS BY EAST TO THEIR DEBT REPAYMENT CAPABILITY, NOTING THAT BANKERS HAD CITED IMPORT DISCIPLINE OF NONMARKET ECONOMIES AND THEIR CONCENTRATION ON PRODUCERS' GOODS AS BASIS FOR JUSTIFYING CONTINUED CREDITS WHEN DEBT-SERVICE RATIOS WERE HIGH. EC REP REPLIED THAT HE ANTICIPATED NO LOSS OF INTEREST BY BANKERS IN LENDING TO THE EAST. LIMITED OFFICIAL USE

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5. SWISS "PRELIMINARY" REACTION TO EC PROPOSAL WAS SKEPTICAL. SWISS DEL (LUGON) ECHOED SEVERAL OF U.S. CONCERNS AND STRESSED VIEW THAT EAST WAS UNLIKELY TO BE ABLE TO INCREASE OVERALL IMPORTS WITHOUT BETTER EXPORT PERFORMANCE. HE WAS PESSIMISTIC ABOUT LATTER GIVEN INCREASED CONSUMERISM IN THE EAST AND POSSIBLE ADVERSE DEVELOPMENTS IN THE ENERGY SECTOR. LUGON DIDN'T SEE HOW DECTORAL COMMITMENTS AS PROPOSED BY EC WOULD HELP, AND SAW "STRING OF PROBLEMS" IN CHOOSING PRODUCTS AND SHARING ADVANTAGES AMONG GATT COUNTRIES. HE THOUGHT IT HELPFUL TO ENCOURAGE EE'S TO DEVELOP THEIR TARIFFS,

AND BELIEVED HUNGARY'S "ADMISSION CARD" TO THE GATT INCLUDED RECOGNITION OF ITS TARIFF CUTS. (LUGON COMMENTED AT LUNCH THAT HE SAW LITTLE CHANCE OF CONVENING A FURTHER MEETING ON SIC'S IN GENEVA BECAUSE IT WOULD GIVE EE'S THE IMPRESSION THAT OECD WAS COORDINATING ITS MTN POLICY TOWARD THEM.)

6. OTHER DELS WERE INTERESTED BUT NON-COMMITAL. CANADA THOUGHT MFN-BASED SECTORAL COMMITMENTS BY EAST MIGHT BE ACCEPTABLE IF RATE OF INCREASE IN IMPORTS WAS PROPORTIONATE TO EASTERN ECONOMIC GROWTH. FINNS SAID THEY WERE SATISFIED WITH THE KIND OF RECIPROCITY THEY HAD OBTAINED IN THEIR FREE TRADE AGREEMENTS WITH THE EAST, WHICH INVOLVED TARIFF REDUCTIONS BY HUNGARY, AND A BLANKET COMMITMENT TO RECIPROCATATE THROUGH THE STATE-TRADING AP-ARATUS OF GDR, CZECHOSLOVAKIA AND POLAND. SWEDEN (HALL) DID NOT ENDORSE EC IDEA WHOLE-HEARTEDLY BUT SUGGESTED, PERHAPS IN JEST, THAT "CHINA" BE ADDED TO LIST OF SECTORS. SWEDEN QUESTIONED EC ASSERTION THAT SIC'S MIGHT AFFECT SHIFT TO INTRA-CEMA TRADE, NOTING THAT

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THIS WAS A REACTION TO HARD-CURRENCY SHORTAGES.
JAPAN STATED THAT THEY HAD TO RESERVE THEIR POSITION
ON SECTORAL COMMITMENTS; IN PRIVATE CONVERSATION
JAPANESE REP SAID HE HAD NO INSTRUCTIONS BUT SAID
HE THOUGHT JAPAN WOULD SUPPORT U.S. VIEW AGAINST
SIC'S. EC MEMBER STATES DID NOT SPEAK, BUT PRIVATELY
DUTCH DEL TOLD US HE HAD BEEN FAVORABLY IMPRESSED
BY U.S. PRESENTATION ON SIC'S AND SAID THAT SEVERAL
EC MEMBERS HAD TAKEN SIMILAR POSITION PRIOR TO
FORMALIZATION OF EC VIEW.

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7. EC'S RESPONSE TO CONCERNS VOICED BY OTHERS
EMPHASIZED THAT AMOUNT OF TRADE INVOLVED BY EC
REQUESTS WOULD BE SMALL ENOUGH TO BE EASILY HANDLED
BY EAST WITHOUT CUTTING BACK IMPORTS OF OTHER
PRODUCTS, AND THAT IMPORTANT THING WAS THE PRINCIPLE
OF HAVING EAST CONTRIBUTE TO MTN IN A SPECIFIC WAY.
KAWAN SUGGESTED REAL PROBLEM WAS A TECHNICAL ONE:
HOW TO ORGANIZE NEGOTIATIONS SO THAT THEY DID NOT
DEGENERATE INTO BILATERAL DEALS AS FEARED BY U.S.
HE SAID THAT ATTEMPTS BY OTHERS TO TORPEDO EC IDEA
WITH EE'S OR IN THE GATT MIGHT HAVE JUST THIS EFFECT.
KAWAN SAID THAT IF EAST DID NOT AGREE TO MAKE
CONCRETE SPECIFIC CONTRIBUTION TO THE MTN, THE EC
WOULD HAVE TO DRAW THE "OBVIOUS CONCLUSIONS."

8. IN SUBSEQUENT PRIVATE CONVERSATION KAWAN WAS
MORE SPECIFIC ALUNCH :THE U.S. COULD EITHER JOIN
EC IN A JOINT EFFORT, OR RISK LOSING OUT TO EC IN
SIC BILATERAL NEGOTIATIONS. KAWAN UNDERSCORED
IMPORTANCE TO EC BY NOTING THAT EASTERN TRADE
(PRESUMABLY INCLUDING NON-MTN PARTICIPANTS)
NOW AMOUNTED TO 11 PERCENT OF EC FOREIGN TRADE,
WHILE U.S. WAS ONLY 19 PERCENT. KAWAN ALSO INDICATED

THAT IF EE'S WERE NOT WILLING TO GIVE SIC'S, EC
WOULD DO ITS BEST TO ENSURE THE EAST DERIVED AS LITTLE
BENEFIT AS POSSIBLE FROM THE MTN.
WHEN KAWAN ASKED SPECIFICALLY WHETHER U.S. WOULD
SUPPORT EC'S SIC APPROACH, U.S. DEL REPLIED THAT
WE WERE VERY SKEPTICAL BUT WOULD REPORT HIS VIEWS
TO WASHINGTON.

9. GROUP AGREED DISCUSSION HAD BEEN VERY USEFUL
AND THAT WORKING PARTY COULD MEET AGAIN ON THE QUESTION
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IF A NUMBER OF DELS FELT THIS DESIRABLE. EC FELT
SUBJECT HAD BEEN DISCUSSED FULLY AND THAT FURTHER
MEETING WAS UNLIKELY, BUT HAD NO OBJECTION IN
PRINCIPLE.
SALZMAN

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